# Types of debt

GW Debt Solutions

## Payday loans

### A payday loan, as the name suggests, is a small amount of borrowing, usually between £50 and £1000, which must be repaid on the following payday.

This is a short term loan with an uncapped interest rate. The APR on a payday loan is at least 300% and sometimes as much as 4,500% or even higher, which is the main reason for payday loan debt. Failure to repay the debt on time can result in fees and charges from the lender, as well as repayment of the original borrowing plus the increasing interest rate, which equates to roughly £1 per day for every £100 borrowed.

## Credit cards

### Credit card debt is a common problem largely because the high interest rates make this type of debt so difficult to repay.

In fact, the UK Payments Council confirmed that there are more credit cards and charge cards in the UK than people, so it is little wonder that this issue is growing, especially as only 1/3 of these cards are interest free. If you feel as though your credit card debt is becoming difficult to manage, stop using your card immediately. Don't forget to let your lender know if you are struggling to make the repayments as there may be a more manageable payment plan they can put in place.

The best way to use a credit card is to repay the balance in full each month. If this is not possible, pay as much as you can afford. Avoid paying only the minimum repayment as this will cause the interest to build up making the debt even more difficult to pay off.

## Overdrafts

An overdraft is attached to your bank account, and allows you to spend more money than is in your account up to an agreed limit.

Borrowing from your overdraft usually comes with high interest rates and don't forget that this is a 'payable on demand' debt, which means that the bank has the authority to request repayment in full at any time.
There are two types of overdraft; arranged and unarranged. An arranged overdraft means that the bank has agreed to you spending more than you have in your account up to a limit. There will be interest applied to this borrowing, but additional charges are applied if you go over this agreed amount.

Exceeding this amount or exceeding your remaining balance without an overdraft in place results in an unarranged overdraft. High charges are applied to an unarranged overdraft, especially if cheques and direct debits have to be returned as a result.

## Store cards

A store card works in a similar way to a credit card, but this borrowing can usually only be used in one particular chain of shops.

A store card allows you to make purchases on credit, on which interest is applied. If the store card is paid off in full each month, this can be a convenient way to shop, and may even come with discounts or reward points. However, because the interest rates are so high, sometimes over 25%, if the card cannot be repaid in full each month, debt can mount up quickly.

# Bank accounts

Bank accounts offer features including cash credit or debit cards, overdraft facility, loyalty points, discount rewards and cheque books.

Some of these features come for free, and some accounts charge a monthly fee. You should check if this monthly fee is appropriate for your needs and that you are getting good value for money. For example, some bank accounts offer free travel insurance and discounted gym membership but if these perks are offered through your job, then there is no point paying for this. Be aware that you will be charged if your bank account falls into an unarranged overdraft, so be sure to keep on top of your spending. A good way to check your account frequently is to sign up for internet banking.

# Car loans

## A car can be financed in a number of ways:

**Personal loan**
This fixed interest agreement is easily budgeted for and a popular choice as the car is bought outright and paid for over a fixed term. The car cannot be repossessed if repayments are missed, but similarly you cannot return the car if you decide you don't need it, or can't afford to keep hold of it.

**Hire Purchase**
The car belongs to the finance company until the final payment has been made. If payments are missed, the car can be repossessed. The car can be handed back and the scheme stopped if the debtor can no longer afford to keep the car but you cannot sell the car without written permission from the HP Company.

**Personal contract purchase (PCP)**
In this case, the finance company owns the car and you make payments for an agreed term length (often between 12 – 48 months). You can use the car in this time, and when the term ends you have the choice of buying the car or returning the car to the finance company and leasing a different one.

**Conditional sale**
This is similar to Hire Purchase in that the property can be repossessed should repayments not be made, and the car is not legally yours until the final repayment has been made.